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Biden, Coalition of State Attorneys General Call on Fannie Mae and Freddie Mac to Do More to Help to Homeowners Hurt By Housing Crisis

Companies should reduce principal of underwater mortgages to help reduce foreclosures, aid recovery of nation's housing market

Wilmington - Delaware Attorney General Beau Biden joined Massachusetts Attorney General Martha Coakley and Attorneys General in nine other states to call on the U.S. government to take an important step that will provide meaningful relief to homeowners who have seen their property values plummet because of the housing crisis.

In a letter sent Wednesday (see attached) to Edward DeMarco, Acting Director of the Federal Housing Finance Agency (FHFA), the Attorneys General sought a substantial increase in the agency's use of principal reductions to help homeowners. The Federal Housing Finance Agency oversees the government-sponsored entities Fannie Mae and Freddie Mac, which collectively own approximately 60 percent of U.S. mortgages.

"More than five million people have lost their homes due to foreclosure in the past five years, with millions more on the brink of foreclosure," Biden and his fellow Attorneys General wrote. "Effectively resolving this foreclosure crisis is a key to restoring a healthy economy for our entire country. Because Fannie Mae and Freddie Mac own a majority of the nation's home loans, they must be a leader in the arena of loan modification best practices, and not an obstruction."

Given Director Demarco's recent acknowledgment that principal forgiveness may be beneficial to both homeowners and the investors who own the mortgage, the letter advocates for swift implementation of principal forgiveness in federal loan modification programs. The Attorneys General argue that principal forgiveness provides borrowers with a stronger incentive to maintain their mortgage payments.

In their letter, the Attorneys General also argue that the increase of incentive payments to investors who own mortgage loans for allowing principal forgiveness under the *Home Affordable Modification Program* (HAMP) should reduce concerns over its potential impact on the financial stability of Fannie Mae and Freddie Mac as owner or guarantor of these loans. Additionally, the letter states that reluctance to engage in principal forgiveness based on an inability of computer systems to handle new programs is not an excuse, particularly as national banks overcame similar concerns after reaching a multistate mortgage servicing settlement [earlier this year](#).

The FHFA has formally acknowledged that forgiveness of mortgage loan principal can serve the long-term interests of taxpayers when compared to foreclosure by combining the goals of asset

preservation and foreclosure prevention. According to [Director DeMarco's remarks to the Brookings Institution](#) this past Tuesday, an initial analysis of new incentives from the Treasury Department by the FHFA shows that Fannie Mae and Freddie Mac could save \$1.7 billion if they applied principal forgiveness in their modification programs.

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